ICO

International Issues Review

30 November 1979

Secret

PA IIR 79-010 30 November 1979

INTERNATIONAL ISSUES

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mining and energy investment in the ACP countries--reflects EC fear that declining European mining investment in the ACP countries would threaten EC raw material supplies, rather than concern over aiding ACP development. The agreed upon increase in aid actually represents a decrease on a per capita basis, given the expansion of the ACP group and the global inflation rate since 1975. The EC did increase the number of commodities covered under Stabex, but the scope of the program remains well below LDC expectations.

ACP efforts to win significant new concessions were stymied by the strength of EC resistance and by disunity among the ACP countries themselves. Those ACP members who pressed for major new features in the agreement found few allies in their own ranks. The Caribbean states were mainly interested in a sugar agreement. The Africans were split among those that have and have not benefited significantly from the existing EC-ACP relationship. The prime beneficiaries, and therefore the countries most satisfied with the status quo, were those with the greatest political and economic leverage over the EC: the more important former French colonies and key raw material producers such as Nigeria, Zambia, and Zaire.

For its part, the EC was much tougher and less responsive to ACP demands in the Lome II negotiations than it had been in Lome I. Early in the discussions, it won the crucial point that Lome II was to extend, rather than significantly alter, Lome I. The limited concessions that the ACP states obtained reflected unusually hard, and occasionally bitter, bargaining. In May 1979, when both sides expected an imminent conclusion to the negotiations, talks broke down entirely because the British insisted that the EC offer only a 10-percent increase in aid.

Even if the ACP had been more unified, the EC would still have taken a harder line than it did in Lome I. In the mid-1970s, the EC feared that OPEC might use its newly found power to support other LDCs' economic demands, and that OPEC-style cartels might be formed for other raw materials. The EC, therefore, tried to be as responsive as possible to ACP demands, within the limits imposed by domestic political and economic constraints. By the late 1970s, however, the earlier EC fears appeared groundless, while domestic constraints were stronger than ever. In

addition, the EC had not received as much political credit from the G-77 for its handling of the ACP relationship as it had hoped. As a result, the EC mood in Lome II was much less generous than in Lome I.

Two more specific factors also may have played an important role in shaping the EC approach toward the Lome II negotiations. The new British Government is less amenable than its predecessor to acceding to LDC demands. Although the Thatcher government did not come to power until late in the negotiating process, it may have been an important obstacle to any last minute EC concessions.

Perhaps more important is an apparent decline of French interest in Lome. The French Government was the original driving force behind close relations between the EC members and their former colonies--which, before British accession to the EC, were mainly in Francophone Negotiated after British entry, Lome I covered former British as well as French dependencies; the French nevertheless continued to expect considerable benefit from the arrangement and took a leading role in pressing for maximum EC responsiveness. By the time of Lome II, however, the French apparently decided that they had received less political and economic benefit from the general EC-ACP relationship than from the earlier EC-French Africa one. Even though the French insisted they wanted to see Lome II concluded during their term as EC president (which ended in June 1979), they appear to have worked less for it than for Lome I.

At the same time as the French adopted a comparatively hard-line attitude in the Lome negotiations, they launched two important new proposals for aid to Africa: the "trialogue" that would arrange Arab funding for EC-sponsored development projects and the "Giscard Initiative" (now the "Multidonor Aid Initiative") that would involve the major developed countries. Both proposals are identified closely with Paris and appear designed to restore French prominence in African development affairs that had been lost through the broadening of the EC association system.

Implications for the North-South Dialogue

The Lome II negotiations indicate a growing skepticism between the EC and ACP countries about the benefits from the relationship. The various factions in the ACP group concentrated on pursuing their own interests rather than forging and maintaining a common negotiating position. Those EC governments that had viewed Lome I largely in damage-limiting terms are no longer concerned that a hard line in the EC-ACP relationship might carry severe economic and political costs. Moreover, France-perhaps the only EC member to expect positive benefits from Lome I--now apparently believes that it can pursue its African aims more effectively through bilateral or other biregional mechanisms.

The Lome negotiations suggest an even greater skepticism between the ACP and the EC about the future of the global North-South dialogue, which depends heavily on the degree of solidarity within the G-77. Neither the EC nor ACP expected strong support for ACP demands from the economically and politically more powerful members of the G-77-the OPEC states and the newly industrializing countries. Such an expectation clearly underlay the Lome I negotiations. Had this expectation existed during the Lome II negotiations, the outcome probably would have been quite different. The EC would have been more forthcoming and the ACP states more inclined to adopt a unified, assertive negotiating position. Most of the ACP states are among the poorest LDCs, with little real leverage against the EC. As a result, they need the promise of powerful outside support before they are willing to make sacrifices for unity among themselves.

The ACP group's attitude toward the globalization of the Lome agreement offers an even more telling indicator of strains on G-77 unity.* The African states that form the majority of the ACP have made it clear that they will resist extension of the Lome accords to other LDCs. They want any privileges granted the ACP

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states to remain exclusive. The Africans' position on Lome globalization reflects an increasing awareness of the disparity between their economic position and that of the more advanced LDCs and a growing doubt that the OPEC countries and the newly industrialized countries will significantly assist the least developed either within or outside the North-South dialogue. Although the Africans are not ready to abandon the effort to achieve their aims through the G-77, they are less inclined than before to expect very much from it.

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OPEC:	Dealing With Developing Country Criticism	

At their 17 to 19 December meeting in Caracas, OPEC members will consider ways of tempering the increasing criticism of their pricing policies by oil-importing less developed countries (LDCs). Faced with sharply higher oil import bills, many non-OPEC LDCs are demanding massive increases in OPEC aid, oil supply guarantees, and concessional oil prices. Some OPEC members are concerned that continued criticism by other LDCs might spill over into such public political forums as the UN and might isolate the cartel within the developing country caucus—the Group of 77 (G-77). Even so, OPEC will, at best, offer a small increase in aid and some supply guarantees, a package too small to quell OPEC's critics among the LDCs.

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Criticism of OPEC

Faced with a massive increase in their oil import bill, slower economic growth, and higher inflation, oil-importing LDCs have become increasingly critical of OPEC oil policies. Beginning with the May 1979 UN Conference on Trade and Development meeting in Manila, continuing at the nonaligned movement meetings (Colombo in June and Havana in September), and at the UN in September and October, key non-OPEC LDCs pushed for increased OPEC aid and for cuts in oil prices for developing countries. Most recently, Pakistan declared that OPEC is obligated to extend immediate balance-of-payments relief to hard-hit LDCs.

Limited OPEC Aid in the Past

As leading LDCs have pointed out, OPEC financial aid has done little to offset the sharply higher oil import bills of non-OPEC LDCs. Roughly 90 percent of bilateral aid flows--\$21 billion in the 1974-78 period-have gone to 18 Arab or other Muslim countries, some of

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which are net oil exporters. Egypt and Syria--both net oil exporters--have been the prime beneficiaries. Since 1977, annual OPEC aid has actually declined because OPEC's political relations with Egypt, the prime recipient of aid in the 1974-77 period, have deteriorated.

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Table 1

Billion US \$

OPEC: Total Economic Aid Disbursements, 1974-78

	Bilateral Aid	Multilateral Aid	<u>Total</u>
1974	2.8	0.7	3.5
1975	4.8	0.5	5.3
1976	4.2	0.8	5.0
1977	5.3	0.9	6.2
1978	4.1	0.9	5.0
Total	21.2	3.8	25.0

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Table 2

OPEC: Total Economic Aid Disbursements

by Recipient, 1974-78

<u>Total</u>	100%
Egypt Syria Jordan Remaining Arab Non-Arab Muslim Multilateral Institutions Other	27 13 7 18 10 15

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Indirect aid funneled through some of the OPEC multilateral institutions such as the Arab Fund for Economic and Social Development, the Islamic Development Bank, and the Arab Monetary Fund is focused also on Muslim countries. In recent statements, Group of 77 delegates argued that the indirect flows have done little to ease the financing burden of LDCs.	25X [°]
OPEC has no organized supply guarantee or price reduction system for the developing countries. On a bilateral basis, Saudi Arabia guarantees oil to LDCs that have close political ties to the Kingdom. As to prices, Iraq has pledged to reduce some charges for a few developing countries.	25X1]

Increased Concern in OPEC

Reflecting an increase in concern over criticism from oil-importing LDCs, OPEC will discuss possible new initiatives at its December ministerial meeting. We believe this is the first time that a discussion of OPEC relations with other developing countries has been listed on the formal ministerial agenda. There are several reasons underlying this new concern:

- -- Some OPEC members fear that continued criticism from other LDCs could politically isolate the cartel within the Group of 77.
- -- Several OPEC members--notably Iraq and Algeria--probably believe the criticism would jeopardize their ambitions to lead the LDC caucus.
- -- Other members, such as Venezuela, believe new efforts at accommodation by OPEC would reduce bilateral pressure from regional LDCs to come to the aid of their neighbors.

Venezuela, in keeping with its traditional position as a moderate force in OPEC and its special role as host to the conference, has suggested three proposals for additional OPEC assistance to the Third World:

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- -- Guaranteed oil supplies to oil-importing developing countries.
- -- A tax of 50 cents per barrel on all oil exports used to boost aid flows to LDCs.
- -- Establishment of an OPEC Development Bank to provide balance-of-payments relief to all LDCs.

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The Outlook

We do not believe that OPEC will break with tradition and offer enough aid to make a sizable dent in the LDC oil import bill or to quiet LDC criticism. Most OPEC members still favor bilateral aid tightly focused on a few key political allies rather than a large, general OPEC fund. Saudi Arabia adamantly opposes any attempt to link future increases in OPEC aid to future oil price hikes.

At best, OPEC may offer some supply guarantees to LDCs and boost contributions to existing multilateral lending institutions. These efforts, however, will not quiet LDC criticism. Saudi Arabia is lukewarm to the idea of increasing contributions to multilateral funds, suggesting that the increase will be well below a level acceptable to oil-importing LDCs. India--chairman of the Group of 77--recently stated that supply guarantees would be meaningless without some offer of concessional financing.

Although no oil-importing LDC is now willing publicly to condemn OPEC, there is rising private talk that bilateral assistance is far too limited, and the threat of disunity within the G-77 is the only way to extract real resource transfers from OPEC.

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During the preparations by the UN Committee of the Whole for global energy negotiations, OPEC aid policies could become a contentious issue. This preparatory phase is scheduled for January in New York. The ranks of LDC critics of OPEC policies almost certainly will swell if the cartel offers only a marginal increase in aid, particularly if it also raises oil prices at its December meeting.

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Taiwan - Saudi Arabia: Forging a Special Relationship	
Complementarity in economic needs is pushing Taiwan and Saudi Arabia toward even stronger economic and political ties. Taiwan looks to Saudi Arabia, the only Middle East government with which it maintains diplomatic relations, as a secure source of oil and a wealthy customer for its exports and overseas development projects. The Saudis, in turn, are receiving inexpensive but skilled project management and help in servicing weapons systems. In a joint communique issued during Taiwan Premier Sun Yun-hsuan's visit to Saudi Arabia last September, the two governments	;
This article by the Office of Economic Research highlights expanding ties between so-called second-order powersTaiwan and Saudi Arabia.* It is a case study of how second-order powers are formulating economic, political, and military ties among themselves, outside the big-power context.	25X1
Economic Ties	
As a result of Taiwan's growing involvement in Saud development and its increasing dependence on Saudi oil, trade in both directions nearly tripled from 1975 to 197	
	*

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The Kingdom now stands as Taiwan's fifth largest trading partner, behind only the United States, Japan, Hong Kong, and West Germany. Taiwan sold \$320 million worth of goods to Saudi Arabia last year, mainly for the construction sector, such as cement, plywood, iron and steel, and construction equipment. Taiwan bought 143,000 barrels per day (b/d) worth of Saudi crude oil in 1978--42 percent of its foreign oil needs--at a cost of more than \$650 million. This oil was purchased mainly through major international oil companies, direct sales accounting for only 20,000 b/d.

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To date, Taiwan firms have concluded nearly \$1 billion in construction contracts in the Kingdom, ranging from highway and port construction to the design and supervision of industrial development projects. Last year about 2,000 Taiwan engineers, technicians, and laborers were working in Saudi Arabia, contributing about \$100 million in remittances to Taiwan. The number of people and the level of remittances remained roughly the same in 1979.

Taiwan also is furnishing agricultural technical assistance to improve Saudi production of rice, wheat, corn, vegetables, and fruit. Moreover, Taiwan technicians provide cooperation in building railway and highway systems, postal and telecommunication services, and other public works projects.

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Taiwan: Construction Projects in Saudi Arabia as of November 1979

	Activity	Million US \$	Dates Started- Completed
Mecca-Hawiya Highway	Construction	58.2	1973-77
Bani-Saad Highway	Construction	39.6	1975-79 ¹
iddah naval harbor expansion project	expansion project Offshore		1975-78
Sewage project, Jiddah		12.0	1976-79 1
Al Ula-Tabouk-Dubha Road	Design and construction supervision	NA	1976-80 1
abal-Bahan feeder road	Construction	37.2	1977-79 1
haar Road	Construction	100.0	1977-
ddah-Mecca Expressway		40.0	1977-80 1
dustrial parks and associated housing at Riyadh, Jiddah, and Dammam	Planning, design, and con- struction supervision	10.0	1976-81 1
oha Airport, stage No. 2		20.6	1977-78
ower supply system, Al Baha		154.0	1977-80 ¹
eadquarters building, Ministry of Industry and Electric Power	Design and construction	40.0	1977-79 1
iddah naval harbor expansion project	Onshore	167.7	1978-80 1

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1 Projected.

The strongest selling point for the foreign projects of Taiwan business firms is their low-cost, highly skilled labor. Experience gained through Taiwan's own industrialization efforts has helped upgrade its construction, managerial, and consulting capabilities. As a result, the island's involvement in foreign development has shifted from unskilled, labor-intensive, earth-moving operations to advanced projects such as power supply systems, airports, harbor projects, industrial parks, and petrochemical consultant work.

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Both Taipei and Riyadh have worked hard to nourish the economic relationship. Taipei has guaranteed the Saudis that it would cut back, if necessary, construction materials needed for domestic projects to meet its obligations in Saudi Arabia. Taiwan also is posting an engineering attache in its embassy in Saudi Arabia to promote construction activity for Taiwan firms. The two countries are organizing a consortium of banks to serve as guarantor for Taiwan firms operating in Saudi Arabia.

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In return for the economic assistance, Saudi Arabia has been selling Taiwan 20,000 b/d of oil directly--with the promise of more in the future--and has granted several concessionary loans to promote infrastructure development in Taiwan. Since the beginning of 1974, the Saudis have loaned Taiwan \$140 million at bargain terms--0- to 5-percent interest and lengthy grace periods.

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Taiwan: Concessionary Loans From Saudi Arabia

Aug 1974 \$30 million Mar 1976 \$50 million Saudi riyal		Freeway project	Interest free, 5-year grace period, 10-year repayment period.
	n (naid in	Engange, project	407 E 1E
		Freeway project	4%, 5-year grace, 15-year repayment.
Dec 1976 \$30 million	1	Railway electrification	4%, 5-year grace, 15-year repayment.
Mar 1978 \$30 million		Telecommunications equipment	5%, 5-year grace, 20-year repayment.

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Boting a st Sun Yun- final co the Arab time, De Kingdom' Saudi Ar	ch countries moved to strengthen their ties dur- tate visit to Saudi Arabia by Taiwan's Premier chsuan last September. As a major plank in the emmunique, the Premier voiced strong support for camp in the Arab-Israeli dispute. At the same eputy Prime Minister Prince Fahd reiterated the s support for Taiwan and assured its oil supplies; tabia also appointed a resident ambassador to Among other points agreed on:
	Saudi Arabia is increasing direct oil sales to Taiwan by 20,000 to 30,000 b/d.
	Both countries pledged to step up scientific cooperation, including research on single-cell protein and on fresh water fish culture.
	Taiwan will continue providing technical assist- ance for railway and highway transportation and telecommunications, including computer operations and satellite telecommunications.

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Outlook

Taiwan's relations with Saudi Arabia focus primarily on its continued access to Saudi oil. Taiwan's nuclear power program is falling so far behind schedule that the island experienced a severe electric power shortage this past summer. Because of its amazing growth record, Taiwan is under extra pressure to survey and develop other possible energy sources--including additional oil.

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Taiwan is also looking to the Saudi construction program to relieve anticipated unemployment and slack demand in its domestic construction sectors over the next year or two. During this period, many of Taiwan's own major development projects will wind up, resulting in an excess supply of skilled engineers, technicians, construction equipment, and construction materials. As a result, Taiwan likely will be more aggressive in seeking foreign construction projects, especially in the Middle East where it has already gained experience and reputation.

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